

HOUSING MARKET OUTLOOK

Montréal CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- On the new home market, after a significant decrease in starts in 2013 (-22 per cent), a small increase is anticipated for 2014 (+1 per cent).
- The level of starts in 2014 (16,300 units) will however be relatively low compared to recent years.
- Transactions on the existing home market will fall in 2013 (-6.5 per cent) and then rise in 2014 (+7 per cent).
- In 2014, the market will still be balanced and could even favour buyers in certain segments.
- The growth in the average resale price (+0.5 per cent) will be below inflation in 2014.

Figure 1



Source: CMHC

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 16, 2013.

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New home market: fewer starts than in recent years

In 2013, housing starts will decrease significantly. In all, 16,100 new units will be enumerated, for a drop of 22 per cent from 2012. The level of starts will not have been this low since the beginning of the 2000s and will be below the average for the last five years (21,000 units). For the first nine months of 2013, the decline affected all market segments and all sectors in the Montréal census metropolitan area (CMA). This slowdown resulted from the current economic conditions characterized by moderate growth and, especially, from the rather abundant supply on the existing and new home markets. Given this environment, builders must adjust to a lower demand than in previous years.

The semi-detached and row home segment recorded the largest decrease for the first three quarters of 2013 (-47 per cent). This significant decline can be explained by a shift in demand toward condominiums, which are more affordable, or else by the will of certain municipalities to further increase the density on their territories.

In 2014, starts will increase slightly but will remain at low levels compared to earlier years. In all, foundations will be laid for 16,300 new dwellings, for an increase of 1 per cent over 2013. The expected number of housing starts will be relatively in line with demographic needs.

Single-detached houses

For the first time in four years, starts of single-detached houses will rise in 2014 (+6 per cent). The more favourable economic conditions and the relatively balanced resale market will result in a small increase in demand for homes of this type.

Still, the 3,300 new units that will be added to the housing stock represent a lower volume of activity than in past years. During the previous decade, up to 8,000 single-detached homes were started per year in the CMA.

Several factors account for the decline in single-detached home construction that has been observed in Montréal for the last ten years or so. The relatively high prices for such dwellings are limiting demand, particularly among first-time buyers. As well, several municipalities in the CMA have sought to increase the density on their territories in recent years, which has favoured multi-unit housing construction. The new land use and development plan will accentuate this phenomenon over the coming years, both on the island and in the suburbs.

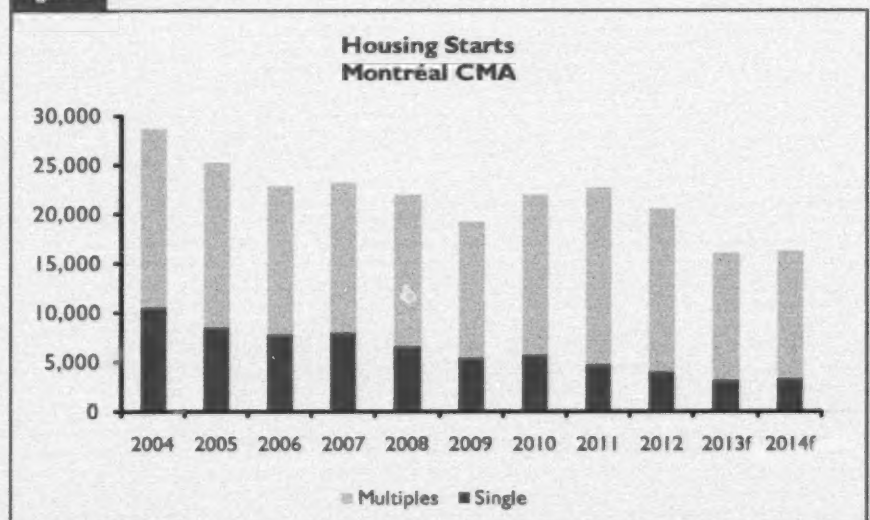
Consequently, available lots to build single-detached houses are scarce, and the construction of homes of this type is moving away from the centre of the CMA and is even quite strong in certain municipalities on the outskirts of the CMA.

Multi-unit housing

In the multi-unit housing segment, 13,000 starts are expected in 2014, a stable level in relation to 2013. All indicators are pointing to a decrease in condominium starts in 2014, for a third drop in as many years. In all, 9,300 new condominium units are expected, down by 3 per cent. The condominium market will still remain the key driver of residential construction, accounting for up to 60 per cent of all housing starts in the CMA.

The condominium market will continue to adjust in order to allow for the gradual absorption of the new and existing units. The resale market is favourable to buyers and the growth in prices has slowed, which could make existing units more attractive. Buyers also have plenty of choice on the new home market. The still relatively large number of units under construction and the gradual, but definite, increase in the inventory of unabsorbed condominiums will prompt builders to reduce the number of new projects. Despite the

Figure 2



Source: CMHC

market conditions, a rather significant volume of condominium units will be built in 2014, particularly with the start of construction on some large projects in the heart of downtown¹.

As for rental housing construction, 2,100 units are expected, a level that is rather stable in comparison with 2013 but still relatively low in relation to the years from 2000 to 2010. The rental housing vacancy rate, which stood at 2.8 per cent in the fall of 2012, has been relatively stable since 2006. In addition, with the rapid growth in the stock of rental condominiums, the current supply is likely quite adequate to meet the demand for rental housing. Also, it should be recalled that, for builders, it remains more difficult to make rental housing projects profitable than condominiums. In the other segment of the rental market, namely, retirement homes, very few new units are anticipated. The vacancy rate for this type of housing is now over 8 per cent, and the growth rate of the target client group for this market is currently low, reflecting the demographic trough of the 1930s.

Existing home market: weak growth in average prices

On the resale market, 37,500 transactions will be registered through the Centris® system in 2013, for a decrease of 6.5 per cent from 2012. This will be the lowest level of activity since the beginning of the 2000s. This slowdown will result from the softening of the demand for existing homes, which occurred mainly at the beginning of 2013 and was due to the weak economic growth and, in part, to

the financial environment. In the first quarter of 2013, transactions fell by 18 per cent from the same period in 2012. The market has since recovered some strength, with transactions having reached higher levels starting in April, which has allowed the market to regain a little ground compared to 2012. The pace of transactions will remain more sustained until the end of 2013 but, in the end, a significant drop is anticipated for the year overall.

On the supply side, active listings in the Centris® system continued to rise all year long and will reach 30,500 units in 2013, for a gain of 12.5 per cent over 2012. The decrease in transactions, combined with the strong increase in active listings, will make for little pressure on prices, and the overall average Centris® price in the Montréal CMA will rise by 1.2 per cent in 2013.

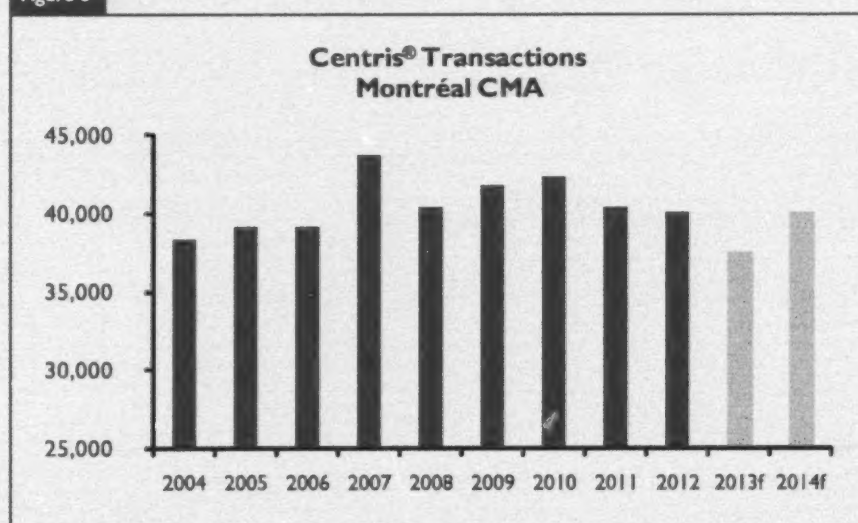
In 2014, thanks to slightly improved economic conditions, some employment growth and the activity

inherent in an increase in the housing stock, transactions will continue to pick up the pace during the first half of the year. In 2014, 40,000 transactions will be registered, for a gain of 7 per cent over 2013 and a level closer to the volumes recorded in 2011 and 2012. The rise in mortgage rates anticipated in 2014 will somewhat slow the pace of transactions in the second half of the year.

As for supply, given the softer market conditions, fewer buyers will be putting their homes up for sale. Consequently, new listings will decrease slightly (-1 per cent) and active listings will remain stable. Market conditions will stay balanced, and the pressure on prices will again be weak (+0.5 per cent).

The condominium market will continue to be softer than the single-family home and plex markets. Having recorded a significant increase in listings, as a direct result of the units started in recent years, this segment

Figure 3



Source : QFREB by the Centris® System Forecast : CMHC

¹ Some 1,500 units divided among a few large projects are expected from now until the end of 2014.

has been favouring buyers since the second half of 2012. With new listings recently having levelled off, the condominium market will stabilize in 2014 but will remain favourable to buyers. The average price of condominiums will fall slightly in 2014.

The single-family home and plex markets will stay balanced, given that active listings rose more slowly in these segments than in the condominium segment in recent quarters, and the average prices for such dwellings will rise slightly.

Rental market: vacancy rate to decrease slightly in 2013 and 2014

In the fall of 2013, the vacancy rate will reach 2.7 per cent, for a small decrease from the fall 2012, when this rate was 2.8 per cent. This slight tightening of the market will result from a somewhat firmer demand and a rather stable supply.

In 2013, the movement to homeownership was somewhat less strong than in recent years. As well, employment growth among people aged from 15 to 24 and the still large number of newcomers also supported demand for rental housing. The vacancy rate has in fact been relatively stable since 2006, having varied between 2.4 per cent and 2.9 per cent.

In 2014, the market will show a similar trend. Demand will rise again, while supply will remain stable. The vacancy rate will reach 2.5 per cent in the fall. Rental housing demand will be fuelled by the same factors. Newcomers will continue to support this demand, and the movement to homeownership will keep easing. First-time homebuyers, who often have less equity than other types of buyers, tend to opt for more affordably priced homes and often

Figure 4



Source: CMHC

*Private structures with three or more apartments

choose to buy condominiums. With the anticipated rise in interest rates, fewer renters will be leaving their dwellings to purchase condominiums.

On the supply side, the rental housing stock has grown very little, given the very small number of new rental units started in the last few years.

Economic trends: modest economic environment

After having grown by 1.0 per cent in 2012, Quebec's gross domestic product will post another modest gain in 2013 (+1.3 per cent). The slow global economic recovery and strong Canadian dollar continue limit exports. In addition, the construction strike at the end of last spring also weakened economic growth in Quebec in 2013. Stimulated by the improvement in the external sector, the province's economy will grow at a more sustained rate in 2014. Provincial GDP will rise by 2.0 per cent.

Employment growth in the Montréal CMA has been higher than the provincial average since the beginning

of 2013. The gain will reach 2.1 per cent for the year overall, which will bring about a small decrease in the unemployment rate, to 8.3 per cent (from 8.4 per cent in 2012). In 2013, the growth in employment has been slightly greater for part-time jobs than for full-time positions. The growth in part-time employment has mainly benefited the group aged 15 to 24 and has therefore had a positive impact on the rental housing demand.

The financial services, construction, health and retail sectors were the most active in terms of job creation. On the other hand, job losses were registered in the manufacturing, education services and public administration sectors. In 2014, a slowdown is anticipated in the construction sector, and the manufacturing sector will continue to post job losses. As a result, employment growth will be more moderate (+1.0 per cent). The unemployment rate will decrease progressively, reaching 8.3 per cent in 2013 and 8.2 per cent in 2014.

Demographics

Net migration, an important factor for housing demand in the Montréal area, particularly on the rental market, will remain rather stable and relatively high this year and next year. From 32,642 people in 2012, the level will reach 32,600 people in 2013 and 32,900 in 2014.

While the Montréal CMA shows negative net migration with the other regions of Quebec and the other provinces across Canada, the area continues to receive a significant number of immigrants. In 2012, more than 45,000 immigrants—the vast majority of the newcomers to Quebec—settled in the CMA. With the government's immigration targets remaining stable², the number of immigrants will stay at high levels over the next two years. Immigration has a major impact, particularly on the rental housing demand, as most newcomers first rent a dwelling when they arrive.

Net migration in the CMA is lowered by interprovincial and intraprovincial migration. Several thousand Montréal residents leave each year to settle in other Canadian provinces, especially in Western Canada, where job prospects are more favourable. The CMA also loses inhabitants to other regions of Quebec.

Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards

Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates³.

CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.

Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to

CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

² Sources: Plan stratégique 2012-2016 and Plan d'immigration du Québec 2013, Ministère de l'Immigration et des Communautés culturelles

³ Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting." Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (<http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html>)

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	In 2013, employment growth in the Montréal CMA (+2.1 per cent) will be higher than the provincial average. The growth will be slightly greater for part-time jobs than for full-time positions.
Income	Average weekly earnings will be stable in 2013 in the Montréal CMA. Net income growth (adjusted for inflation) is slightly negative, which is limiting housing demand.
Population	Population will grow moderately, mainly thanks to sustained immigration.
Resale Market	The forecasts call for 40,000 transactions in 2014, or 7 per cent more than in 2013. The market will still be balanced and could even favour buyers in certain segments. The growth in the average resale price (+0.5 per cent) will be below inflation.
Other	Net migration will remain rather stable and relatively high this year and next year. From 32,642 people in 2012, the level will reach 32,600 people in 2013 and 32,900 in 2014.

Forecasts risks

Downward

- Weaker-than-expected economic and employment growth, particularly on account of the uncertainty in the United States, would limit housing demand, which would attenuate the recovery on the resale market and result in a further decline in starts.

- A greater increase in the number of unabsorbed condominiums could lead to a more significant decrease in condominium starts in 2014.

Upward

- Given that the slowdown on the condominium market will continue, builders could show renewed interest in rental housing construction in the medium term.

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Forecast Summary Montréal CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	5,789	4,653	3,959	3,100	-21.7	3,300	6.5
Multiples	16,212	18,066	16,632	13,000	-21.8	13,000	0.0
Starts - Total	22,001	22,719	20,591	16,100	-21.8	16,300	1.2
Average Price (\$):							
Single-Detached	343,513	362,243	407,065	435,500	7.0	453,000	4.0
New Housing Price Index (% chg.)	3.1	2.9	1.4	1.0	-	1.0	-
Resale Market¹							
Centris® Sales	42,298	40,355	40,091	37,500	-6.5	40,000	6.7
Centris® New Listings	72,137	75,473	77,074	77,600		77,000	0.0
Centris® Active Listings	21,333	24,708	27,108	30,500	12.5	29,500	-3.3
Centris® Average Price (\$)	293,011	308,856	321,075	325,000	1.2	326,500	0.5
Rental Market²							
October Vacancy Rate (%)	2.7	2.5	2.8	2.7	-	2.5	-
Two-bedroom Average Rent (October) (\$)	700	719	711	720	-	730	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.5	3.5	3.2	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.6	5.4	5.3	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	1,954,200	1,952,500	1,978,800	2,020,000	2.1	2,040,000	1.0
Employment Growth (%)	2.6	-0.1	1.3	2.1	-	1.0	-
Unemployment rate (%)	8.6	8.3	8.5	#N/A	-	8.2	-
Net Migration	32,413	30,432	32,642	32,600	-0.1	32,900	0.9

¹The Centris® system contains all the listings of Québec real estate brokers.

²Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics, CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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